United Technologies Corporation
1401 Eye Street, N.W., Suite 600
Washington, D.C. 20005-6523
(202) 336-7463 Fax: (202) 336-7479
lisi.kaufman@utc.com

Lisi Kaufman
Senior Vice President
Government and International Affairs

March 19, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515-6115

Dear Chairman Dingell:

On behalf of United Technologies Corporation (UTC), I am pleased to submit the attached UTC Climate Change Position for your consideration as you draft legislation in the House Committee on Energy and Commerce. The approach Congress and businesses adopt to tackle the climate change issue will present both challenges and opportunities.

UTC is a diversified company whose products include Carrier heating, air conditioning and refrigeration; Otis elevators and escalators; Pratt & Whitney aircraft engines; Sikorsky helicopters; Hamilton Sundstrand aerospace systems and industrial products; UTC Fire & Security systems; and UTC Power fuel cells. UTC is a member of the Fortune 50 and the Dow Jones Industrial Average index. We bring a credible voice to the policy debate, as we've been a leader in addressing climate change by reducing energy use in our operations and incorporating energy efficient innovations in our products.

Since 1997, UTC worldwide energy use is down by 19 percent in a company twice the size. We are focusing on energy conservation and climate change for our new 2010 environmental goals to reduce absolute greenhouse gas emissions by 12 percent in the next four years. We expect to achieve this aggressive target in part with significant energy conservation projects and with investments in technologies to create power from waste heat. UTC will also extend its influence across the value change to reduce negative environmental impacts by its factories, products and suppliers.

A national climate change program should include flexible market-based policy measures without losing sight of strong support for research, development and commercialization of emission-reduction technologies. Financial incentives, such as tax credits for alternative energy and advanced energy efficient products, are also key technology drivers. Under any climate policy, companies like UTC that have reduced their emissions over the past decade should be recognized for their early, voluntary actions.

Thank you for your consideration of UTC's views as you focus on this important topic. If you have any questions, please contact Jeffrey Marks in the UTC Washington Office at (202) 336-7414 or jeffrey.marks@utc.com.

Sincerely,

Lisi Kaufman

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lisi.kaufman@utc.com

Lisi Kaufman
Senior Vice President
Government and International Affairs

March 19, 2007

The Honorable Rick Boucher
Chairman
Subcommittee on Energy and Air Quality
U.S. House of Representatives
Washington, DC 20515-6115

Dear Chairman Boucher:

On behalf of United Technologies Corporation (UTC), I am pleased to submit the attached UTC Climate Change Position for your consideration as you draft legislation in the House Committee on Energy and Commerce. The approach Congress and businesses adopt to tackle the climate change issue will present both challenges and opportunities.

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CLIMATE CHANGE POLICY POSITION

United Technologies Corporation (UTC) is committed to reducing the human impact on climate change through:

- Energy conservation and greenhouse gas emission reductions in its global operations;
- Technology development for energy-efficient products and alternative energy; and
- Support for public policies that allow markets to achieve climate goals with maximum flexibility and minimal costs.

A national climate change program, harmonized at the international level, should include:

- A combination of flexible policy measures that recognize early action and voluntary programs to reduce greenhouse gas emissions and conserve energy;
- Funding mechanisms for research, development, demonstration and deployment of greenhouse gas reduction technologies;
- Stable and predictable financial incentives such as investment and production tax credits for renewable and alternative energy systems and advanced energy-efficient products;
- A comprehensive national policy and roadmap, supported by a strong implementation plan and sufficient funding, to encourage development and use of high-performance and sustainable buildings.

Climate Change Program

Any mandatory climate change program should include clear, efficient, cost-effective market-based mechanisms to provide maximum flexibility in meeting greenhouse gas emission limits. Such mechanisms should be designed to minimize the costs of compliance and promote economic growth while achieving real, verifiable emission reductions. Program measures should encourage energy efficiency and emission reductions through a mixture of performance-based standards, market mechanisms and incentives designed both to discourage high emissions and to encourage low- and zero-emission technologies. Any market-based program should also avoid product prescriptive or prohibitive regulations.

A climate change program must include recognition of voluntary early action, either through construction of the baseline or some other mechanism, so companies that have reduced their greenhouse gases over the past decade are not penalized for taking voluntary environmentally responsible actions. Recognition of early action should not be tied to participation in any specific reporting effort, but rather based on the ability to document and verify that real reductions took place. Such early actions should include reduction in greenhouse gas emissions related to operational facilities as well as products and services.

Regulated Greenhouse Gases

Many in the world community have attempted to define a "basket" of greenhouse gases as targets for emission reductions to achieve climate change objectives. These gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfurhexafluoride.

While UTC agrees that public policies should address the reduction of emissions from these gases, the list should be expanded. It ought to include chlorofluorocarbons (CFCs) which, with nearly eight times the potency in some cases of today's hydrofluorocarbon (HFC) refrigerant replacements for air conditioning and refrigeration, are among the most powerful and damaging greenhouse gases. Public policies should include CFC emission reduction in order to encourage the retirement of existing products. Climate change policy should also guard against the unintended consequences related to availability and affordability of HFCs under any potential cap-and-trade mechanism. As replacements to CFCs, HFCs do not deplete the ozone layer and can have significantly lower global warming impact. Even with these improvements, HFCs have a higher global warming impact than carbon dioxide. Because of this difference in value, a full cap-and-trade system could significantly increase the consumer cost for air conditioning and refrigeration and lead to unintended market consequences.

Any public policies regarding these gases must focus on emission reductions, as envisioned by the United Nations Framework Convention on Climate Change, instead of on product-specific prohibitions. A process should be established to evaluate any additional greenhouse gases that may be added for future emissions control. A climate change program should include a pathway that will slow, stop and reverse the growth of greenhouse gas emissions.

Recognition for Early Action

Voluntary programs to reduce greenhouse gas emissions have been successful in slowing the rate of growth of emissions. Companies that have taken action to reduce greenhouse gas emissions should not be penalized for early efforts to increase their energy efficiency and reduce their emissions once a mandatory reduction program begins. Failure to recognize early emission reductions would have the perverse effect of forcing companies that have already implemented the emission reduction projects with the highest return to make further reductions through increasingly costly options while benefiting competitors who perform their least costly reductions in response to regulatory mandates.

Any mandatory program must ensure that early emission reduction investments are recognized and "credited." Such credit could be used to offset obligations under a mandatory reduction program or sold to parties unable to meet their obligations in a cost-effective manner. Limits should not be placed on the amount of emission reductions for the period within which early action credit can be earned.

Credit should be granted for actions resulting in verified emission reductions that occur in the past decade or between 1997 and the beginning of any official budget commitment period. Participation in any particular voluntary reporting programs should not be a requirement for early action credit. A process should be established to determine and "lock in" appropriate baselines for emission reduction activities, including facility operations and product-based initiatives.

Companies should receive credit for early efforts in reducing greenhouse gas emissions through product innovation and new product development. Market factors should determine who "owns" the credits related to early actions in developing more climate-friendly products. Under a mandatory system, allocations of credits could be made on a company-by-company basis, with early adopters receiving higher allocations based on past product improvements. If allocations are made on a market segment basis, such a system should recognize that some companies are involved in more than one sector and may have products that cross market sectors, and therefore make provisions for such circumstances.

Research, Development, Demonstration and Deployment

Any climate change program should feature a coordinated approach to climate change-related technology research, development, demonstration and deployment (RDD&D) to expand options and lower the cost of technologies that reduce greenhouse gas emissions. Coordinating efforts is vital to leveraging scarce resources, reducing duplication of effort and addressing climate change challenges comprehensively. A national roadmap for the development and market transition of emission reduction technologies should be driven by federal agencies and the private sector together to obtain alignment among RDD&D priorities and investment from government, national laboratories, universities and private industry. These efforts now tend to be near-term and incremental, which may naturally limit future success. The federal government should increase its focus on and investment in existing and emerging alternative energy and energy efficiency technologies that have a high potential to be affordable and cost-effective and to gain market acceptance.

Climate change technology RDD&D programs should focus on:

- Improving energy efficiency and reducing greenhouse gas emissions in transportation, residential and commercial buildings and industrial processes.
- Applying advanced technologies, such as combined heat and power and distributed generation, to the electricity transmission and distribution infrastructure as well as to light, medium and heavy duty transportation applications.

The federal government plays a central role in creating the incentives and adopting the requirements necessary to encourage customers to invest in efficient, clean technologies that will increase our nation's energy independence and security through sustainable means. Government is also an important customer because its vast purchasing power can help increase volume and reduce costs to levels more competitive with traditional energy sources. Government purchase and deployment of climate change technologies also lends invaluable credibility that, in turn, stimulates public investment.

It is essential to make wise RDD&D investments in order to expedite innovative and cost-effective approaches to reducing energy demand and greenhouse gas emissions. Such investments are also critical to ensuring and maintaining America's competitive position in energy technology deployment.

Financial Incentives

Financial incentives such as investment and production tax credits, grants, rebates, loan guarantees and green energy bonds for renewable and alternative forms of energy will help support commercialization of greenhouse gas reduction technologies by addressing the barrier of first costs. For example, the *Energy Policy Act of 2005* offers consumers and businesses federal tax credits on the purchase of energy-efficient appliances and products (*e.g.*, energy-efficient heating and cooling equipment; photovoltaic property; clean, efficient fuel cells). Unfortunately, most of these tax incentives are scheduled to expire within two years and further extensions are needed to provide manufacturers and consumers sufficient time and certainty to take advantage of the energy savings intended. Such credits should be extended for a time period necessary for early commercial adoption of greenhouse gas reduction technologies. Tax policy can also play a useful role in accelerating depreciation for heating, air conditioning and refrigeration systems in commercial buildings as a means to encourage the retirement of CFC-based and older inefficient systems.

Financial incentives will help introduce new technologies into the marketplace, increase the market share of energy-efficient products by lowering their cost to consumers and lower manufacturers' production risks and investments. Tax credits can be used to help build new energy-efficient homes, improve existing homes, install high-efficiency equipment in commercial buildings, purchase and install energy-efficient heating and cooling systems, produce energy-efficient appliances and provide combined heat and power systems.

High Performance and Sustainable Buildings

The building sector consumes more than 40 percent of the energy produced in the United States and is responsible for nearly 40 percent of greenhouse gas emissions. The generation and transmission of electricity for residential and commercial buildings account for most of this energy use, but energy consumption by equipment and appliances is also growing rapidly. Moving toward high-performance and sustainable buildings will cut energy consumption and cost; improve human health and productivity through better indoor environmental quality; provide reliable electricity from on-site renewable and alternative power generation that is less susceptible to disasters and security threats; reduce waste and water use; and reduce the nation's reliance on foreign sources of energy.

A properly constructed energy technology roadmap for buildings can identify actions the private sector and government can take to improve energy efficiency and reduce greenhouse gas emissions. Federal policy should take a whole-building life cycle approach in the design of new and the renovation or retrofitting of existing buildings. The federal government should leverage a wide variety of government policies, partnerships, incentives and support for a broad portfolio of energy technologies to accelerate the transition to net-zero energy buildings. These technologies include, but are not limited to, energy-efficient heating, ventilating and air conditioning systems; advanced combined heat and power systems for distributed generation; stationary fuel cells; building automation, security and communications; and renewable energy sources.

International, State and Regional Coordination

Increasing atmospheric concentrations of greenhouse gases are a global concern that warrants a global response from all nations, both developed and developing. The United States should be part of a global system. It should play a leadership role in climate change policy, not only to reduce greenhouse gas emissions, but to maintain the security and continued availability of its energy resources and improve the competitiveness of U.S. industry. At a minimum, the United States should be part of discussions with the international community regarding post-2012 next steps in achieving a global greenhouse gas reduction system.

A mandatory climate change program will also need to harmonize national policies and procedures with pre-existing state, local and regional efforts to reduce greenhouse gas emissions. The ability to link to other international, state, regional and local programs is critical to minimizing costs and harmonizing obligations under various systems.

UTC provides high technology products and services to the aerospace and construction industries worldwide. Its stated goals of reducing energy consumption and greenhouse gas emissions apply to its facilities and operations throughout the world. Because UTC has facilities in more than 60 countries, the company supports the idea that a U.S. greenhouse gas emission reduction program should be compatible with other programs.

Conclusion

United Technologies stands ready to expand partnerships with the business community and the government in climate change policy formulation and implementation; research and development planning; and program execution and technology demonstrations. Strong public-private partnerships will lead to more efficient and timely commercial deployment of greenhouse gas-reducing and energy-efficient technologies.

A national climate change program must include flexible market-based policy measures without losing sight of strong support for research, development and commercialization of emission-reduction technologies. Financial incentives, such as tax credits for alternative energy and advanced energy efficient products, are also key technology drivers. Policies that encourage construction of new energy-efficient buildings and renovations of buildings to use less energy should be encouraged. The United States should take a leadership position on climate change technology policy to reduce greenhouse gas emissions, to maintain the security and continued availability of its energy resources and to improve the competitiveness of U.S. industry.

United Technologies Corporation (UTC) is a diversified company whose products include Carrier heating, air conditioning and refrigeration; Hamilton Sundstrand aerospace systems and industrial products; Otis elevators and escalators; Pratt & Whitney aircraft engines; Sikorsky helicopters; UTC Fire & Security systems; and UTC Power fuel cells. UTC is a member of the Fortune 50 and the Dow Jones Industrial Average index.

For additional information on UTC environmental, energy and climate change goals, please visit www.utc.com/responsibility.

United Technologies Corporation

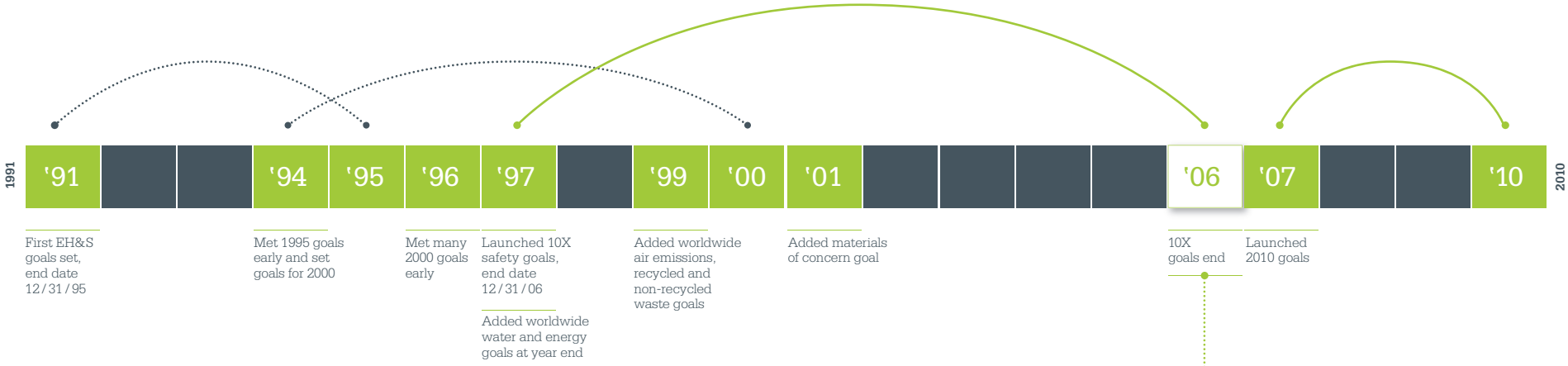
Environment, Health & Safety Goals

United Technologies

CARRIER | HAMILTON SUNDSTRAND | OTIS | PRATT & WHITNEY | SIKORSKY | UTC FIRE & SECURITY | UTC POWER

UTC has a disciplined and proven approach to profitability and environmental responsibility.

EH&S TIMELINE



10X GOALS

For more than 15 years, discipline and focus have guided UTC's continuous environment, health & safety (EH&S) improvement. Since 1990, hazardous waste and air emissions have decreased 89 percent and 98 percent, respectively. Employee health and safety, as measured by lost time incidence, improved 94 percent in the same period. As our past performance has demonstrated, meeting our 2010 goals will be both challenging and rewarding.

UTC set its first EH&S goals in 1991 and met many of them before the 1995 deadline. We set new goals through 2006 including "10X" improvements in safety metrics, striving for a 90 percent reduction from the 1996 base year. Ten years later, we have not met all these extraordinary goals but have come close.

We exceeded our 10X goals to reduce air emissions and waste (recycled and non-recycled). We also exceeded goals to reduce energy and water use by 40 percent between 1997 and 2006 (normalized for revenue). In absolute terms, energy use during this same period measured in Btu's decreased 19 percent and water use by 49 percent worldwide, while UTC revenues nearly doubled. Although we fell short of our safety goals, our worldwide lost workday incidence is down 80 percent and U.S. recordable incidence down 78 percent. While not 90 percent, we made significant reductions and will continue to strive for a workplace free from injury.

2006 10X GOALS SUMMARY

Air Emissions	Recycled Waste	Non-Recycled Waste	Energy Use
ACTUAL 69% reduction	ACTUAL 52% reduction	ACTUAL 66% reduction	ACTUAL 56% reduction
GOAL 60%	GOAL 35%	GOAL 60%	GOAL 40%

Water Use	Materials of Concern in New Products	Worldwide Lost Day Incidence Rate	U.S. Total Recordable Incidence Rate
ACTUAL 72% reduction	GOAL 100% reduction	GOAL 90% reduction	GOAL 90% reduction
GOAL 40%	ACTUAL 45%	ACTUAL 80%	ACTUAL 78%

NOTE: 10X air, waste, energy and water use metrics are normalized for revenues. Energy and water metrics apply to UTC manufacturing sites and locations with >$100K in energy spending.

2010 GOALS

UTC's 2010 goals are just as aggressive as past goals and include several significant changes. For the first time, we have extended our environmental expectations to include suppliers and new products. Environmental performance will be measured in absolute terms rather than normalized for revenue. We also included a new and important metric on greenhouse gas reduction, expanded global safety metrics and a greater focus on compliance. UTC looked broadly at peer companies, best practices, and partnered with Innovest, an internationally recognized investment research and advisory firm, to establish the new targets.

Environment, Health & Safety
United Technologies Corporation

Annual updates on UTC's EH&S progress are available on our Web site at **www.utc.com/responsibility**.

2010 GOALS

FACTORY & OPERATIONS METRICS

Energy conservation and greenhouse gas (GHG) reduction are an important part of UTC's 2010 goals. Prior to 2002, there was no accepted standard for measuring GHG emissions. For the 2010 goals, UTC adopted the GHG accounting standards and methodologies set out by the World Business Council for Sustainable Development and the World Resources Institute GHG Protocol. Our goal is to reduce absolute GHG emissions by 3 percent annually through 2010. This is an aggressive goal as we achieved about 2 percent annually since 1997. We intend to make the reductions mainly through investments in energy conservation projects and co-generation systems at many of our larger facilities in the United States.

Increasing workplace safety remains to be a focus for the company. Our worldwide goals are to reduce lost workday incidence from 0.49 to 0.17 per 100 employees, and recordable incidents from 1.42 to 0.64 per 100 employees, by 2010. UTC strives for a workplace free from injury.

2010 GOALS

SUPPLIER METRICS

Critical Suppliers

100%
meet UTC EH&S expectations

PRODUCT METRICS

Minimum Requirements for Passport & Design Review Certification

Packaging	Energy Efficiency
10% reduction in product packaging	**10%** increase from baseline product

Materials of Concern

100%
eliminated in new products

An important new metric in the 2010 goals is supplier EH&S expectations. The global scope of our operations gives us the opportunity to affect all of our businesses positively. Representatives from UTC's Supply Management and EH&S groups have designed a program that sets five minimum EH&S expectations for the commodities and suppliers that have the greatest EH&S risk.

UTC's critical suppliers will be asked to assess themselves against our EH&S expectations and to document corrective actions where necessary. We define critical suppliers as those providing the top 80 percent of UTC's raw materials, special processes and industrial product purchases. Data will be collected and tracked and other commodity groups will be added as the program develops.

UTC will continue pursuing our goal to eliminate materials of concern from new products as we've done in the past. We seek to minimize the environmental footprint of our products, and we look to United Technologies Research Center (UTRC) and R&D functions at our business units to guide us toward environmentally sound products and solutions.

United Technologies Corporation 2006 Corporate Responsibility Report

At the Intersection

How to Use This Report

This printed report complements the United Technologies Corporation 2006 Annual Report and UTC's Corporate Responsibility Web site. The Annual Report describes our business and financial performance in detail; it can be viewed at www.utc.com/investors. The electronic version of this report includes additional data, documents and case studies. To access this material, go to www.utc.com/responsibility and click on the links within the text. For reference, those links are represented here by words and phrases printed in **bold**.

Reporting on corporate responsibility performance is voluntary and relatively new. The Global Reporting Initiative (GRI), a non-governmental organization, is leading international development of consensus-based reporting standards (www.globalreporting.org). We have taken GRI's proposed guidelines into account in preparing this report, particularly in covering the same categories and performance measures over time. The structure of this report is outlined in the Table of Contents below.

Table of Contents

COMPANY OVERVIEW

United Technologies Corporation (UTC) is a diversified company whose products include Carrier heating, air conditioning and refrigeration; Hamilton Sundstrand aerospace systems and industrial products; Otis elevators and escalators; Pratt & Whitney aircraft engines; Sikorsky helicopters; UTC Fire & Security systems; and UTC Power fuel cells. UTC is a member of the Fortune 50 and the Dow Jones Industrial Average index, employs nearly 215,000 people worldwide, and had 2006 revenues of $47.8 billion.

Carrier

Employees
41,257

Revenues
$13.5 billion

Operating Profit
$1.2 billion

Heating, ventilation, air conditioning and refrigeration (HVACR) systems, components, controls and services for residential, commercial, industrial and transportation applications; food service equipment.

Hamilton Sundstrand

Employees
17,252

Revenues
$5.0 billion

Operating Profit
$832 million

Electrical power generation and distribution systems; engine and flight controls; propulsion systems; environmental control systems; auxiliary power units; fire protection systems and LED lighting for aircraft, space vehicles and military ground vehicles; industrial products, including compressors, pumps and metering devices.

Otis

Employees
61,103

Revenues
$10.3 billion

Operating Profit
$1.9 billion

Design, manufacture, installation, service and upgrade of elevators, escalators and moving walkways for all buildings, including commercial, residential, multipurpose malls, educational institutions and urban transportation systems.

Pratt & Whitney

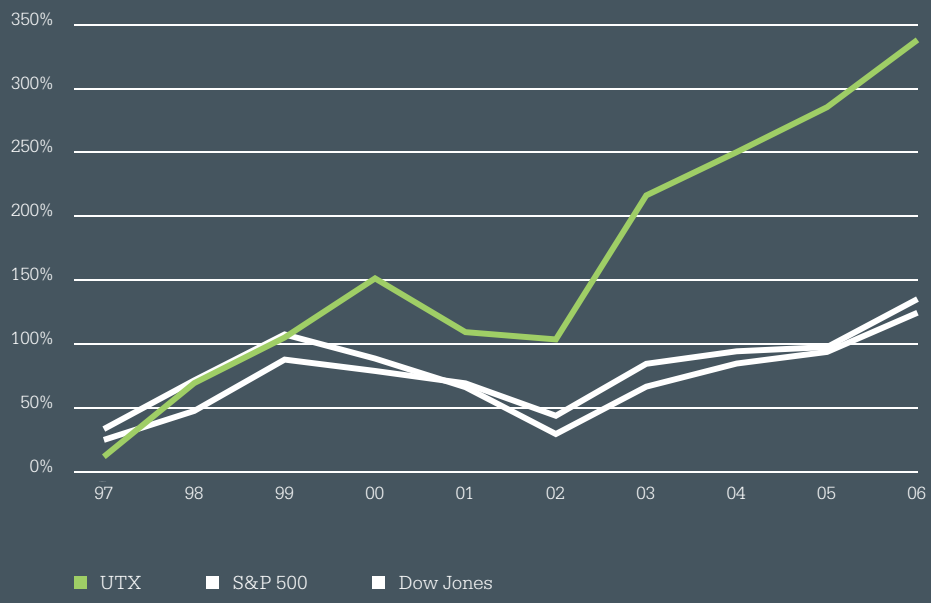
Employees
38,442

Revenues
$11.1 billion

Operating Profit
$1.8 billion

Turbofan engines for large commercial and military aircraft; turbofan and turboprop engines for regional, light jet, business, utility and military aircraft; turboshaft engines for military and commercial helicopters; gas turbine engines for industrial applications and auxiliary power units; maintenance, repair and overhaul services, including the sale of spare parts, as well as fleet management services; lliquid space propulsion systems for military and commercial applications, including NASA's space shuttle and Vision for Space Exploration.

TOTAL SHAREHOLDER RETURN 1997-2006



Sikorsky

Employees
11,417

Revenues
$3.2 billion

Operating Profit
$173 million

Military and commercial helicopters; fixed-wing reconnaissance aircraft; spare parts and maintenance, repair and overhaul services for helicopters and fixed-wing aircraft; civil helicopter operations.

UTC Fire & Security

Employees
43,239

Revenues
$4.7 billion

Operating Profit
$301 million

Electronic security and fire safety systems, software and services; design, integration, installation and servicing of access control, intruder alarm, video surveillance, and fire detection and suppression systems; monitoring, response and security personnel services.

UTC Power

Employees
487

UTC Power does not report financial information as a separate segment.

Fuel cell systems for on-site, transportation, space and defense applications, including the U.S. space shuttle program; combined cooling, heating and power systems for commercial and industrial applications.

UTC grows at the intersection of human progress and human concern.

How does one company travel both paths? With passion and precision.

Corporate responsibility means operational excellence at UTC, carried out by nearly 215,000 employees doing their jobs safely, ethically and profitably. We believe globalization, urbanization and climate change provide challenges to our world and opportunities to invest profitably and responsibly for our shareowners, employees and communities.

UTC's performance for shareholders has been exceptional. Total shareholder return was 14 percent in 2006, and cumulatively 338 percent over the last decade. We have achieved these results while conforming to high ethical and environmental standards and working to meet our obligations to employees for a safe and productive workplace and opportunities to improve themselves.

UTC closed out successfully in 2006 prior goals to improve Environment, Health & Safety performance and set new goals for 2007 through 2010. Over the prior decade, lost workday incidence and U.S. recordable incidence are down 80 and 78 percent, respectively. Over the same period, worldwide energy use measured in Btu's is down 19 percent on a company twice the size. Water use is down comparably 49 percent. Longer term, we have reduced hazardous waste and air emissions as reported to the U.S. Environmental Protection Agency by 89 and 98 percent since 1990, respectively.

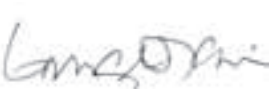
Tragically, five employees lost their lives in 2006, and 41 were seriously injured. There is no higher priority than eliminating workplace fatalities and serious injuries, and we have fallen short of this standard. Our businesses by their nature have large and dispersed field workforces operating with exposures to hazards. We have made great progress in minimizing these exposures with equipment redesigns to fail-safe standards, protective clothing and methods and relentless employee training. We will not cease our efforts until workplaces free from hazards are truly achieved.

UTC's environmental goals through 2010 are aggressive and include for the first time a greenhouse gas metric. The latter (sometimes called carbon dioxide equivalents) arises from implementation of the new accounting standards and methodologies set jointly by the World Business Council for Sustainable Development and the World Resources Institute. Our goal is 3 percent annual reductions in carbon dioxide equivalents independent of organic growth, which compares favorably to our already significant reductions in energy use averaging 2 percent annually over the last decade.

We relaunched UTC's ethics and compliance program in 2006. Our Code of Ethics, first published in 1990, was reissued and re-emphasized. New and important program elements include ethics training and an ethics component in performance appraisals, both mandatory each year for all salaried employees worldwide, and significantly increased Business Practices staffing.

2006 marked the first decade of UTC's widely recognized Employee Scholar Program, with employees having earned more than 20,800 degrees. Current employee participation exceeds 8,500 domestically and 4,500 internationally. The program's success is due to its scope and benefits, which include not only UTC paid tuition and fees but also paid time away from work, freedom to choose courses and concentrations without limitation, and UTC common stock awards on degree attainment. These awards have totaled more than four million shares since program inception, currently valued at more than $250 million.

This printed report is shorter than prior reports, with enhanced information appearing on our Web site, www.utc.com/responsibility. Please visit this site to learn more and provide feedback on our performance.



George David Chairman and Chief Executive Officer

Louis Chênevert President and Chief Operating Officer

OUR COMMITMENTS

Our Commitments define who we are and how we work.
They focus our businesses and move us forward.

PERFORMANCE

Our customers have a choice, and how we perform determines whether they choose us. We aim high, set ambitious goals and deliver results, and we use customer feedback to recalibrate when necessary. We move quickly and make timely, well-reasoned decisions because our future depends on them. We invest authority where it needs to be, in the hands of the people closest to the customer and the work.

INNOVATION

We are a company of ideas that are nurtured by a commitment to research and development. The achievements of our founders inspire us to reach always for the next innovative and powerful and marketable idea. We seek and share ideas openly and encourage diversity of experience and opinion.

OPPORTUNITY

Our employees' ideas and inspiration create opportunities constantly, and without limits. We improve continuously everything we do, as a company and as individuals. We support and pursue lifelong learning to expand our knowledge and capabilities and to engage with the world outside UTC. Confidence spurs us to take risks, to experiment, to cooperate with each other and, always, to learn from the consequences of our actions.

RESPONSIBILITY

Successful businesses improve the human condition. We maintain the highest ethical, environmental and safety standards everywhere, and we encourage and celebrate our employees' active roles in their communities.

RESULTS

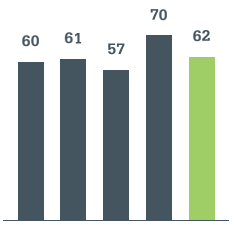
We are a preferred investment because we meet aggressive targets whatever the economic environment. We communicate honestly and forthrightly to investors, and deliver consistently what we promise. We are a company of realists and optimists, and we project these values in everything we do.

KEY PERFORMANCE INDICATORS

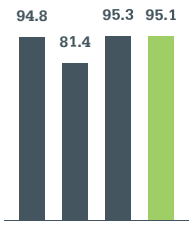
From energy use to employee education, we measure performance in corporate responsibility using key performance indicators (KPIs). These help stakeholders understand our progress and compare UTC with other companies and industry benchmarks. More information on the topics and metrics presented here is provided later in this report and in its online companion www.utc.com/responsibility.

GOVERNANCE

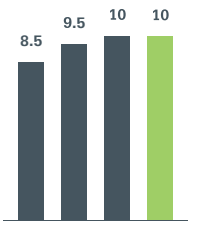
In 2006, UTC maintained its ranking on the Dow Jones Sustainability Indexes and was named one of the "100 Most Sustainable Corporations in the World" at the World Economic Forum in Davos, Switzerland. We also received positive assessment from Institutional Shareholder Services ranking of the S&P 500, AAA status from Innovest Strategic Value Advisors and were rated 10 out of 10 by GovernanceMetrics International. The company was named "Most Admired" aerospace and defense company in the U.S. by *Fortune* magazine for the sixth consecutive year.



Dow Jones Sustainability Indexes
Total score



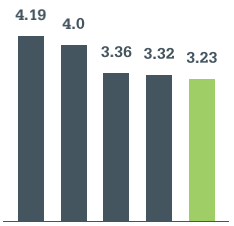
ISS Corporate Governance Quotient
Compared to S&P 500 companies



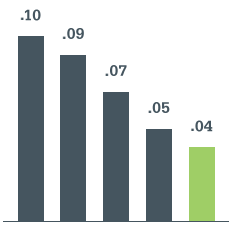
GovernanceMetrics International Accountability Rating
Compared to S&P 500 companies

THE ENVIRONMENT

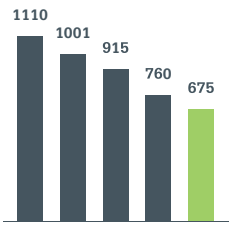
UTC set its first Environment, Health & Safety (EH&S) goals in 1991, and has publicly reported EH&S performance since 1992. Starting in 1997, we committed to aggressive 10-year goals to reduce impacts in water, energy, air emissions and waste. We have made substantial progress on all of these indicators, and have set new goals for improved performance yet again by 2010. For the first time we will target greenhouse gas emissions, as measured in carbon dioxide equivalents (CO2e). For ease of reference, we have restated our energy use for the last five years in CO2e, and will be reporting against this metric in the future.



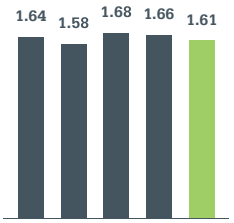
Worldwide air emissions
Million lbs



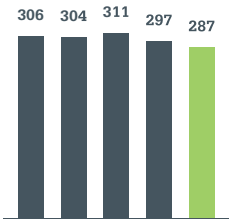
Worldwide normalized water consumption
Gals/$



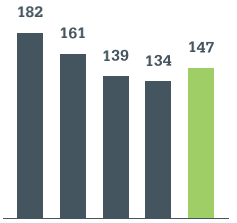
Worldwide normalized energy consumption
Btu/$



Worldwide carbon dioxide equivalents
Million metric tons



Recycled waste
Million lbs

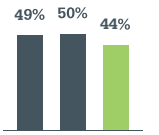


Non-recycled waste
Million lbs

OUR PRODUCTS

In 2001, we started to eliminate **materials of concern** (toxic and hazardous materials) in all new product designs. We targeted 100 percent reduction, and have achieved 44 percent elimination in new designs to date.

For the first time, we have targeted all new products for improved environmental performance. Our goal is for all new products to increase energy efficiency and reduce packaging by 2.5 percent annually. We will report our progress in future reports.



Elimination of materials of concern
New products

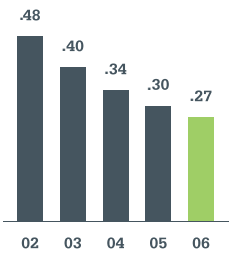
OUR CUSTOMERS AND SUPPLIERS

We will work with our key suppliers to meet a set of baseline EH&S expectations. We began supplier self-assessments with a pilot group in 2006 and expect 500 larger global suppliers to certify they have met our baseline EH&S standards by 2010. We will track suppliers participating and report this information in the future.

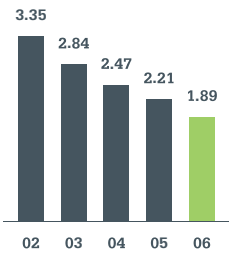
OUR PEOPLE

UTC continued to work on its overall health and safety record. Our worldwide lost workday incident rate fell to 0.27 and the U.S. recordable incident rate fell to 1.89. While work-related fatalities declined to 5 compared to 12 in 2005, serious injuries increased from 30 to 41.

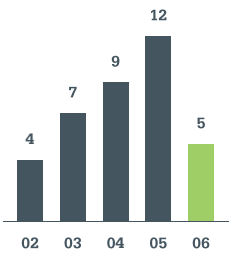
Open and free access to education is an important benefit for all UTC employees. In 2006, 13,282 UTC employees in 47 countries furthered their education with support from our unique Employee Scholar Program (ESP), which covers the costs of accredited degree programs and provides paid time off for study. We invested $72 million in ESP in 2006 and more than $600 million since the program's inception in 1996.



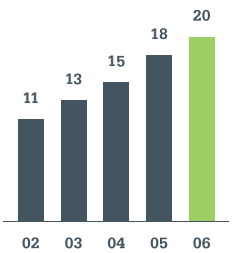
Worldwide lost workday incident rate
Cases/100 employees



U.S. total recordable incident rate



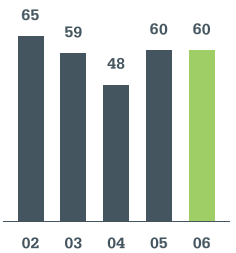
Occupational fatalities



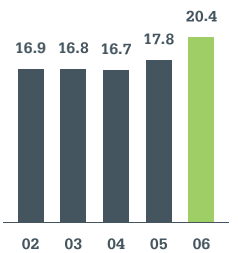
ESP cumulative degrees earned
In thousands

OUR COMMUNITIES

We maintained our above average rating in the social dimension of the Dow Jones Sustainability Indexes, our independent measure of social responsibility. Charitable donations were more than $20 million in 2006, an increase of 14.6 percent over the prior year. UTC employees in the United States volunteered more than 47,000 hours in their communities during the year.



Dow Jones Sustainability Indexes
Social dimension



UTC corporate grants
Million $

PROGRESS ON 2006 OBJECTIVES

Our progress in achieving the four corporate responsibility objectives we set in 2005.

GOVERNANCE

Objective 1: Reinvigorate compliance and ethics programs worldwide.

During 2006, we updated our Code of Ethics, originally published in 1990. More than 160,000 copies of the updated Code were distributed; more than 4,000 employee meetings were held to discuss the Code; online training doubled; compliance risk assessments were conducted at 74 entities; ethics was embedded in performance appraisals for salaried employees and executives; and the staff of business practices officers was increased from 39 full-time-equivalent positions to 60 full-time-equivalent positions. The roll-out of the Code will be finished, worldwide, in early 2007.

THE ENVIRONMENT

Objective 2: Develop and test next-generation environment, health and safety goals.

In 2006, we successfully completed our decade-long effort to significantly reduce energy, water, air emissions and waste from our internal processes. The year was spent preparing for the implementation of ambitious new goals for absolute reductions, which we begin in 2007 and plan to achieve by the end of 2010 (see page 14). In addition to these challenging new targets for our internal operations, we are introducing goals for our products and suppliers as well.

OUR PEOPLE

Objective 3: Launch integrated diversity and inclusion intranet site.

We created a diversity and inclusion intranet site that highlights stories of innovation achieved by multicultural teams spanning different disciplines, levels, geographies, ages and genders. The site will be widely promoted within UTC in 2007.

OUR COMMUNITIES

Objective 4: Create unified corporate-wide community affairs program and develop metrics to assess.

Community Affairs will now focus on three strategic areas for UTC: math and science education, the environment and the arts. Each UTC business will focus 50 percent of its philanthropic contributions on these strategic areas, with the balance supporting employee engagement and customer requests for donations. We created an internal Community Affairs survey to measure our effectiveness, and will implement this corporate-wide in 2007.

2006 CHALLENGES

Challenging issues and events that we addressed during the year.

GOVERNANCE

In 2006, we dismissed 289 employees and disciplined 234 others for compliance and ethics lapses. These totals are higher than in prior years due to increased employee awareness, accountability and the impact of bringing newly acquired companies into UTC. We also encouraged UTC employees to use our Ombudsman and DIALOG programs to communicate their concerns outside of traditional management channels.

We anticipate resolution in 2007 to a European Union investigation of the elevator industry in several EU countries. This investigation, which began in 2004 and focused on antitrust issues, was the principle catalyst for the renewed and broadened compliance and ethics program as described on page 14.

THE ENVIRONMENT

In 2001, UTC targeted 100 percent elimination of materials of concern (toxic and hazardous materials) from new product designs. Although we have achieved a 44 percent reduction, we have been challenged to make further reductions, particularly in aerospace applications, because of either the lack of alternatives for high temperature applications or customer requirements.

OUR PEOPLE

Increasing workplace safety continues to be a focus for the company. We set an aggressive goal in 1996 of 90 percent reduction in lost workday and U.S. recordable incident rates. While we fell short of this goal, we made significant progress at 80 and 78 percent, respectively.

We deeply regret the deaths of five UTC employees while at work in 2006. We also recorded 41 serious injuries in 2006, an increase over the prior year. These injuries and deaths occurred despite extensive training and physical safeguards, which we continually examine and strengthen. These incidents reflect the hazardous nature of some of our business activities, our dispersed field workforces and the challenge of permanently eliminating serious injuries from all our workplaces worldwide.

2007 OBJECTIVES

More information on UTC's **Corporate Responsibility Objectives** is available in the online version of this report.

Objective 1

Reduce greenhouse gas emissions 3 percent annually and water consumption 2.5 percent annually through 2010.

Objective 2

Increase overall favorable responses to the biennial employee survey by 3 percentage points.

Objective 3

Invest $100 million over the next four years in energy conservation projects, including co-generation systems.

Objective 4

Work toward elimination of work-related fatalities and serious injuries.

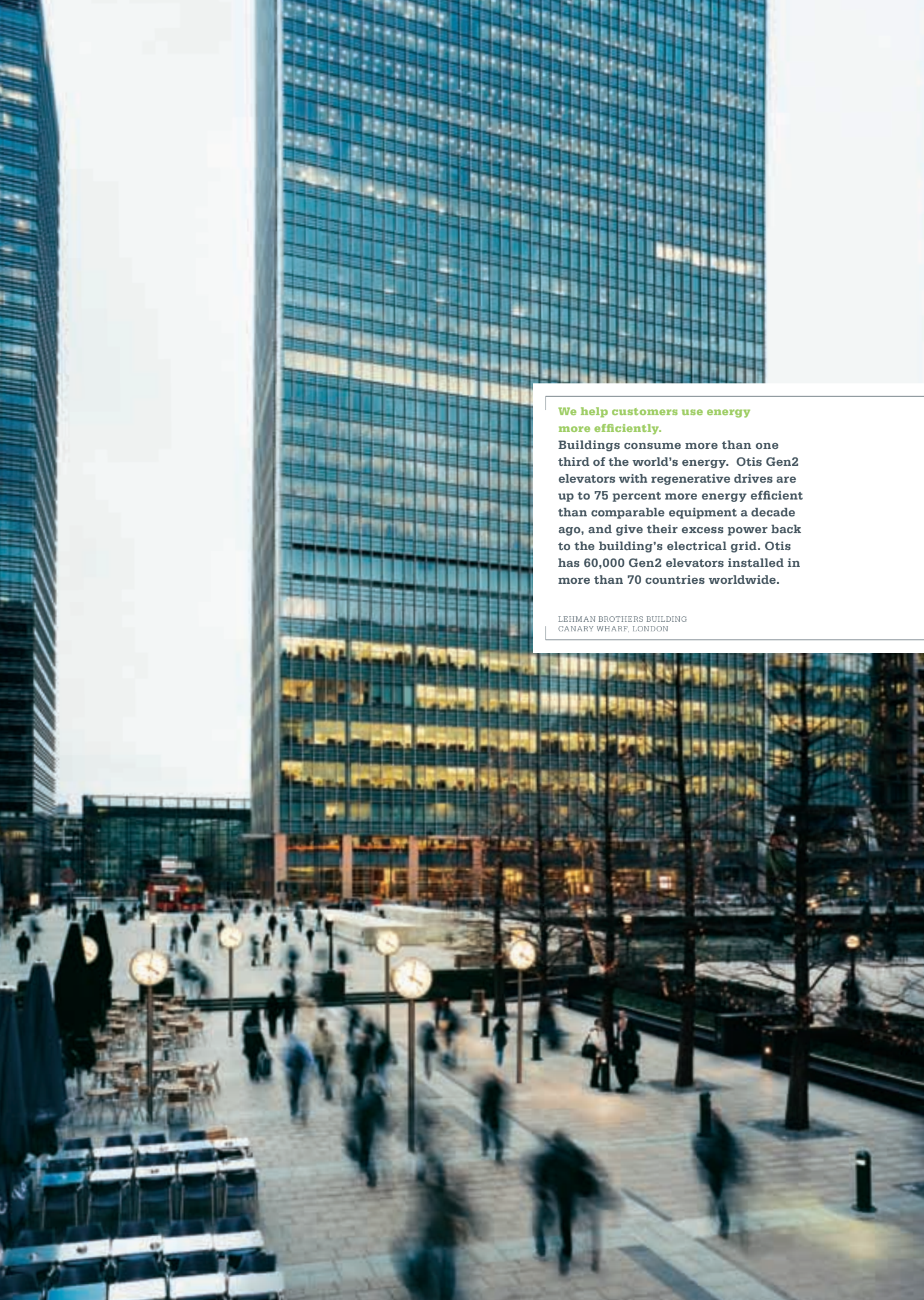
Objective 5

Achieve 100 percent awareness of UTC Code of Ethics at executive, managerial and professional levels.

Objective 6

Reduce lost workday incidents rate from .49 to .17, and recordable incidents rate from 1.46 to .64, both globally and by 2010.*

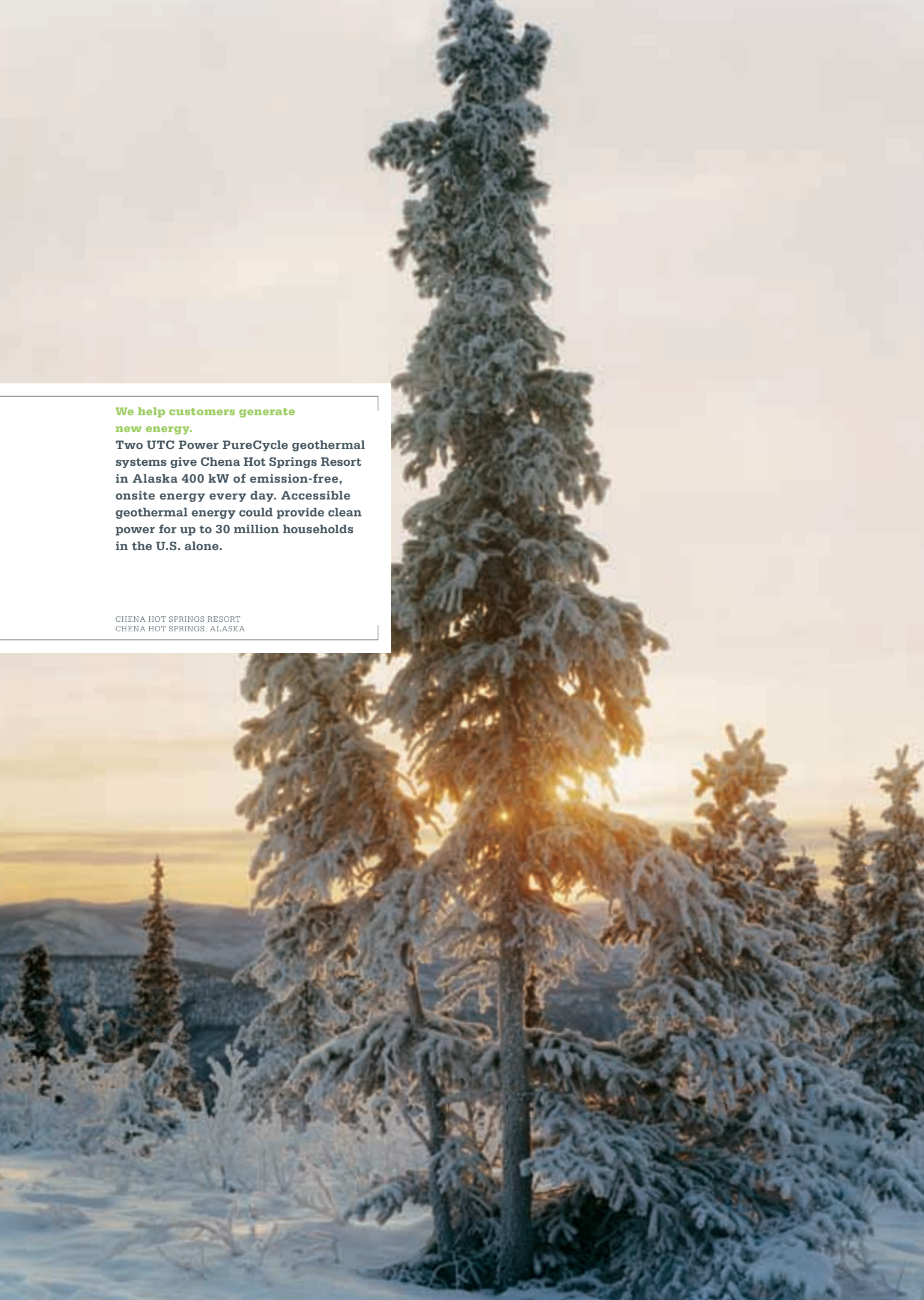
*Note: This metric was re-baselined in 2006 to include the Chubb, Kidde and Rocketdyne acquisitions and to convert recordable incidents from U.S. to global.



We help customers use energy more efficiently.

Buildings consume more than one third of the world's energy. Otis Gen2 elevators with regenerative drives are up to 75 percent more energy efficient than comparable equipment a decade ago, and give their excess power back to the building's electrical grid. Otis has 60,000 Gen2 elevators installed in more than 70 countries worldwide.

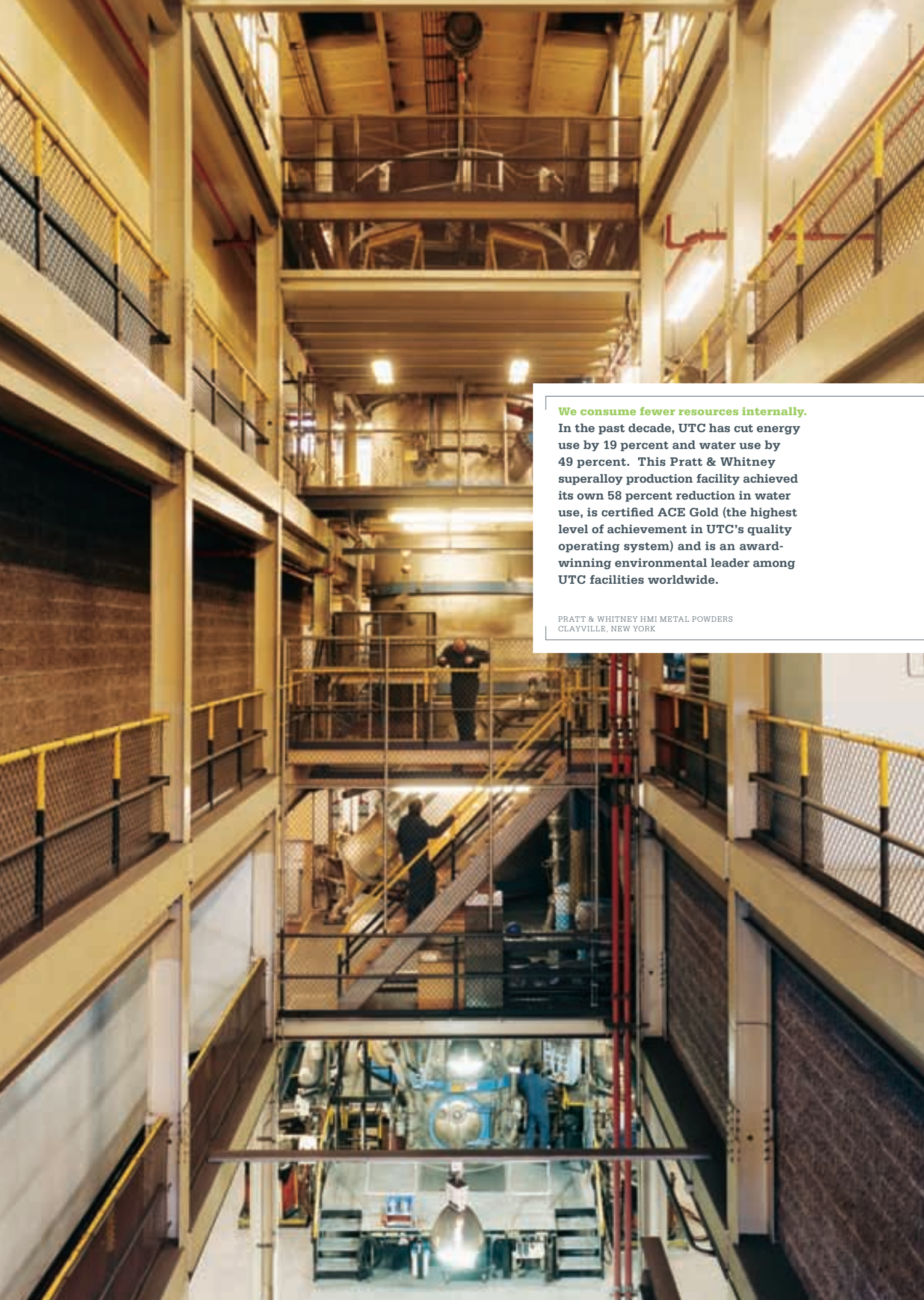
LEHMAN BROTHERS BUILDING
CANARY WHARF, LONDON



We help customers generate new energy.

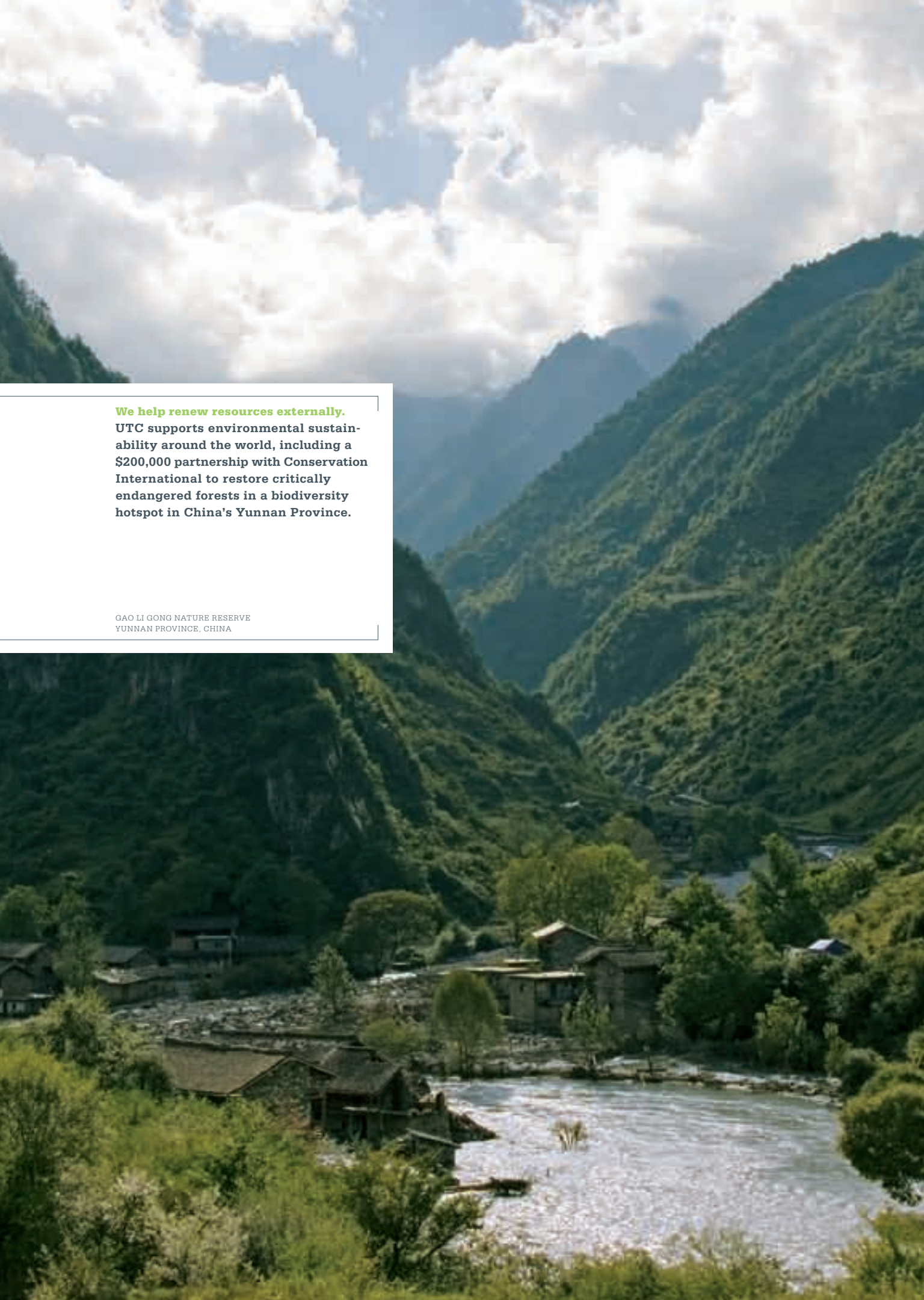
Two UTC Power PureCycle geothermal systems give Chena Hot Springs Resort in Alaska 400 kW of emission-free, onsite energy every day. Accessible geothermal energy could provide clean power for up to 30 million households in the U.S. alone.

CHENA HOT SPRINGS RESORT
CHENA HOT SPRINGS, ALASKA



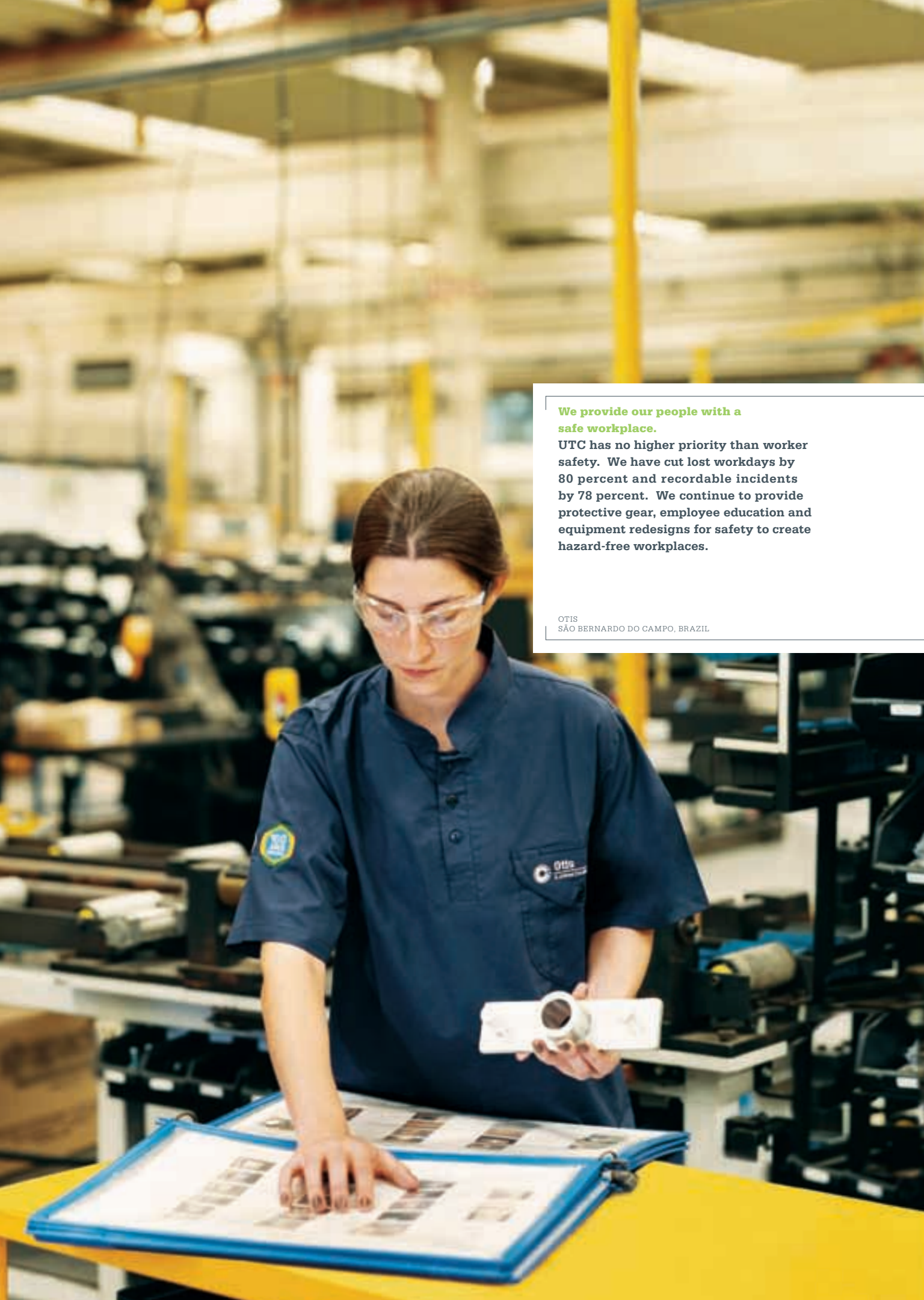
We consume fewer resources internally.
In the past decade, UTC has cut energy use by 19 percent and water use by 49 percent. This Pratt & Whitney superalloy production facility achieved its own 58 percent reduction in water use, is certified ACE Gold (the highest level of achievement in UTC's quality operating system) and is an award-winning environmental leader among UTC facilities worldwide.

PRATT & WHITNEY HMI METAL POWDERS
CLAYVILLE, NEW YORK



We help renew resources externally.
UTC supports environmental sustainability around the world, including a $200,000 partnership with Conservation International to restore critically endangered forests in a biodiversity hotspot in China's Yunnan Province.

GAO LI GONG NATURE RESERVE
YUNNAN PROVINCE, CHINA



We provide our people with a safe workplace.

UTC has no higher priority than worker safety. We have cut lost workdays by 80 percent and recordable incidents by 78 percent. We continue to provide protective gear, employee education and equipment redesigns for safety to create hazard-free workplaces.

OTIS
SÃO BERNARDO DO CAMPO, BRAZIL

We provide our people with free access to education.

Claudia Lunkes, a process engineer in Brazil, was one of more than 13,000 employees enrolled in undergraduate and graduate degree programs paid for by UTC in 2006. She and other graduates will receive graduation awards when they finish their degrees. Our total investment in the program since its inception in 1996 is more than $600 million.

PONTIFICIA UNIVERSIDADE CATOLICA
SÃO PAULO, BRAZIL

GOVERNANCE

Fostering Ethical Decision Making

The aim of corporate governance at UTC is an **ethical culture** in which 100 percent compliance with laws and regulations is the standard. Our **Board of Directors** includes 12 independent directors out of 14; the Nominations and Governance, Audit, Compensation and Executive Development, and Public Issues Review committees are all composed of independent directors.

The Public Issues Review Committee reviews UTC's charitable contributions and community programs, political action committees, and responses to public issues such as equal employment opportunity, the environment, and safety in the workplace. The Committee also reviews UTC's annual Corporate Responsibility Report. A copy of the Committee's charter and list of members are available on UTC's Web site at http://investors.utc.com/charters.cfm.

We implemented explicit new **ethics leadership objectives** for the presidents of our business units, and linked them to the president's performance-based bonuses. These objectives call for increased awareness by employees, improvements in ethics scores in UTC's employee survey and systematic efforts to reduce compliance lapses. We also introduced an ethics competency for performance reviews of salaried employees worldwide, and updated our **Code of Ethics**.

Our governance activities are not just internal. Among the ways UTC contributes to public policy is through congressional testimony and **participation in industry organizations**. We also have a political action committee, funded entirely by voluntary employee donations, which contributes to political candidates aligned with UTC interests. For elections held during the 2005 through 2006 election cycle, UTC PAC contributed $562,000 to candidates running for the U.S. House of Representatives and the U.S. Senate.

THE ENVIRONMENT

Further Reducing Our Impact on the Earth

The focus of UTC's programs is to reduce the negative environmental impacts of operations, particularly those that may affect **global climate change** and the ozone layer. UTC was a founding member of the Pew Center on Global Climate Change **Business Environmental Leadership Council (BELC)** and has been an **EPA Climate Leader** since 2003. In 2006, we joined the **Chicago Climate Exchange** as a Phase 1 and Phase 2 member.

In 2007, we embark on a new four-year program to reduce greenhouse gas emissions by 12 percent, **water consumption** by 10 percent and non-recyclable waste by 30 percent, all on an absolute basis as compared to 2006. A significant change is that the energy and water metrics will no longer be normalized for volume and instead will be tracked in absolute terms. Our new greenhouse gas reduction target, equivalent to taking more than 50,000 cars off the road annually, is aggressive, as our performance to date has averaged 2 percent reduction annually.

At UTC, we pursue environmental goals the same way we pursue financial and business goals: by continuously improving our processes at every level of the company. To achieve our aggressive greenhouse gas reduction goal, our businesses will undertake significant conservation projects and equipment upgrades based on **audits of energy use** and greenhouse gas emissions.

One of the most significant opportunities is to use co-generation technology, which uses waste heat to create power. We are adopting this technology to increase energy efficiency and eliminate waste at several large installations in the United States, and will report on our progress in the years ahead.

The electronic version of this report includes additional data, documents and case studies. To access this material, go to the online report at www.utc.com/responsibility and click on the links within the text. For reference, those links are represented here by words and phrases printed in **bold**.

OUR PRODUCTS

Designing for Quality, Reliability and the Environment

UTC products turn energy into useful work. Because of their reliability and longevity, the energy efficiency of our products becomes part of our customers' environmental footprint. This motivates us to design for the environment, creating products that consume fewer resources and produce fewer emissions during manufacture and in operation. We take this approach with everything from **fire extinguishers** to **air conditioners** to **jet engines**. We also offer a growing portfolio of products for clean power generation, including **hydrogen fuel cells** and low-temperature **geothermal plants**.

The United Technologies Research Center (UTRC), our stand-alone research facility, develops technology that helps UTC deliver high performance products that are also clean, green, quiet and safe. In 2006, 40 percent of UTRC's research and development funding went into projects that benefit the environment directly, via clean energy generation, or indirectly, by reducing energy consumption of UTC products in service.

UTC helps building owners and managers increase energy efficiency with solutions such as Otis' power-regenerating **elevator drives** and UTC Power PureComfort co-generation systems for cooling, heating and electricity.

In 2006, UTC and Lafarge, the world leader in building materials, co-founded the **Energy Efficiency in Buildings (EEB)** project, in partnership with the World Business Council for Sustainable Development, to create a roadmap to a world in which buildings consume zero net energy. We have also agreed to help China's Ministry of Construction support green building by collaborating in the areas of energy conservation and sustainable development. To lead the way, we broke ground on our own **green building**, an Otis facility in Tianjin, designed to meet the U.S. Green Building Council's LEED Gold rating.

OUR CUSTOMERS AND SUPPLIERS

Making a Difference in Our Business Relationships

UTC serves customers primarily in two global industries: aerospace and building systems. Our aerospace customers include governments, aircraft manufacturers and airlines. Government aerospace customers include both **military** and civil departments in dozens of countries; in the United States we provide products and services to all five branches of the military, NASA and the Department of Homeland Security. Our building systems customers include building owners and managers, building contractors, and property developers worldwide. In addition, we provide clean energy solutions to customers in the transportation industries, and armed response and protection services to customers whose business requires a high level of security.

UTC's supply chain includes more than 50,000 companies, with which we spent more than $20 billion in 2006. Our sourcing decisions to date have been based on a supplier's ability to provide high-quality, best-value products. We are incorporating further expectations in the areas of environment, health and safety (EH&S) and supplier diversity. During the year we set five minimum EH&S expectations for the commodities and suppliers that have the greatest EH&S risk. We developed an assessment tool for suppliers that was piloted in 2006 and will be introduced in 2007.

We expect our suppliers to continually improve their performance. UTC uses an operating system called Achieving Competitive Excellence (ACE). We offer formal and hands-on ACE training to key suppliers. We also sponsor **networking events for minority suppliers**, and help select suppliers **plan and design their production processes** to ensure environmentally sound operation along with high-quality output and competitive cost structures.

OUR PEOPLE

Offering Opportunities for Advancement to All Employees

Safeguarding our workers on the job is the top priority at UTC. We have reduced the global incident of lost workdays by 80 percent since 1990, and we continue to **redesign work processes** to increase safety. An engaged workforce has helped us win "Star" status for 15 U.S. facilities under **OSHA's Voluntary Protection Program (VPP)**. Nevertheless, our operations often place people in hazardous circumstances. While serious injuries rose in 2006 to 41 from 30 in 2005, on-job fatalities declined to five, including two at Otis, two at UTC Fire & Security and one at Carrier. We reviewed all these incidents to identify causes and prevent their reoccurrence.

Access to education is an important benefit offered to all UTC employees. UTC's Employee Scholar Program funds tuition, fees and the cost of books for any accredited degree program in which an employee chooses to enroll. Rewards for completing a degree include grants of UTC stock or comparable compensation.

In 2006, 13,282 employees were enrolled, including 4,000 hourly employees; more than 2,300 employees worldwide completed their degrees. Since 1996, our ESP investment including stock awards totals more than $600 million.

We have conducted biennial, global **employee surveys** since 1999 to measure employees' opinions on management communication, job satisfaction and understanding of UTC priorities and to assess levels of employee engagement. In 2007, we will focus in particular on improving UTC scores in management communication.

In hiring, we seek a **diverse workforce** across race, gender, age and experience. We actively recruit to develop our pipeline of **next-generation managers** and support our workers through networking groups, mentoring and career counseling.

OUR COMMUNITIES

Focusing our Philanthropy on Global Priorities

We believe that successful businesses improve the human condition. We pursue this goal through our business processes and products and also in how we interact with local communities around the world. In 2006, we mapped our stakeholders, defined their priorities and consolidated our community outreach efforts. We will now focus our efforts on developing the next generation of engineers, researchers and finance professionals; keeping our environment clean and safe; and promoting excellence through the arts.

Our business units will pursue these goals in local communities around the world where they have employees, facilities and customers, while corporate headquarters takes responsibility for cross-business, national and international community relationships. This structure, combined with our focus on the priorities listed above, will generate better results for the company and the community.

To encourage appreciation of math, science and engineering, we invest our resources and employees volunteer their time in programs such as **FIRST Robotics**, a U.S. contest for high school students. Grants made by our **Sustainable Cities** program support Habitat for Humanity and Global Green USA in bringing green building practices to affordable housing. Through our relationship with the Habitat for Humanity and Operation Save-a-Life programs, we also provide heating and cooling equipment, smoke detectors and carbon monoxide alarms to low-income families. In 2006, we sponsored **"Cities in Transition,"** a multicity photographic exploration of changing urban environments. Americans for the Arts recognized our long-term support of the arts by giving UTC its 2006 **Corporate Citizen for the Arts** award.

To support employee priorities, we run workplace campaigns for United Way and match charitable gifts made by U.S.-based employees.

The electronic version of this report includes additional data, documents and case studies. To access this material, go to the online report at www.utc.com/responsibility and click on the links within the text. For reference, those links are represented here by words and phrases printed in **bold**.

Learn More about Corporate Responsibility at UTC

The online version of this report (www.utc.com/responsibility/index.htm) includes additional data, documents and case studies that illustrate the topics discussed in this report. To keep up with corporate responsibility developments during the year, including selected speeches by senior executives, visit our online Press Room at www.utc.com/press/index.htm.

Respond to This Report

Your feedback is important to us. Please visit us online to tell us what you think of our corporate responsibility performance and reporting. A response form is available at www.utc.com/responsibility/index.htm.

This publication includes "forward-looking statements" concerning expected actions, outcomes and other matters that are subject to risks and uncertainties. Important factors that could cause actual results to differ materially from those anticipated or implied in forward- looking statements include the health of the global economy; strength of end-market demand in building construction and in both the commercial and defense segments of the aerospace industry; fluctuation in commodity prices, interest rates, foreign currency exchange rates, and the impact of weather conditions; and company-specific items including the availability and impact of acquisitions, the rate and ability to effectively integrate these acquired businesses, the ability to achieve cost reductions at planned levels, and the outcome of legal proceedings. For information identifying other important economic, political, regulatory, legal, technological, competitive, and other uncertainties, see UTC's Annual Report on Form 10-K.

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